

VZCZCXRO8860
RR RUEHLMC
DE RUEHSN #0897/01 2111934
ZNR UUUUU ZZH
R 291934Z JUL 08
FM AMEMBASSY SAN SALVADOR
TO RUEHC/SECSTATE WASHDC 9866
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUCPDOG/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC

UNCLAS SECTION 01 OF 02 SAN SALVADOR 000897

STATE PASS USAID/LAC
STATE ALSO PASS USTR
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN
3134/ITA/USFCS/OIO/WH/PKESHISHIAN/BARTHUR
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [ES](#)

SUBJECT: CAFTA-DR RESULTS AFTER ITS SECOND YEAR SHOW CONTINUED
EXPORT GROWTH

REF: STATE 1964

Summary

1. Two years after implementation, CAFTA-DR in El Salvador continues to show positive growth. According to Central Bank figures, total exports from El Salvador to the U.S. have increased by 13.7% percent to \$2.1 billion, with maquila (apparel) exports increasing by 5% and non-maquila exports growing by 64%. Similarly, U.S. exports to El Salvador grew by 52% to \$3.6 billion on a wide range of products in the first two years of the agreement. Continued growth and diversification of Salvadoran exports are among the bright spots of the Salvadoran economy. Thus far, the U.S. economic slowdown has not had a noticeable effect on exports, though any effect could be delayed until later in the year. End summary.

Total Exports Up in Both Directions

2. During the first two years of CAFTA-DR, total exports from El Salvador to the U.S. have increased by 13.7% to \$2.1 billion, according to Central Bank statistics. In the same period, U.S. exports to El Salvador grew by 52%, from \$2.4 billion to \$3.6 billion. (NOTE. El Salvador Central Bank and U.S. Department of Commerce figures often differ significantly. END NOTE)

3. The positive trend continued during the first four months of 2008. Exports to the U.S. reached \$188 million, a 24% increase over the same period in 2007, while imports from the U.S. grew by 14% to \$850 million.

Textile Sector Growing

4. Maquila exports (apparel exports using primarily imported components) have had a mixed performance during the CAFTA-DR period. In the first year, from March 2006 to February 2007, maquila exports declined by 11% from \$1.79 billion to \$1.59 billion. Those exports fell mainly due to the increased competition from Asia following expiration of the quotas of the Multi-Fiber Arrangement as well as growing regional competition. In the second year of CAFTA-DR, from March 2007 to February 2008, the trend was reversed, with maquila exports reaching \$1.618 billion. Apparel exports now represent 79% of total Salvadoran exports to the U.S.

5. The maquila sector has begun a process of restructuring that will lead to increased vertical integration and value-added production. New investments in the sector suggest that CAFTA-DR has helped Salvadoran maquilas remain competitive with Asian producers (reftel). In 2006-07, total investment in the sector increased by 36% to \$399.1 million. Rising transportation costs should also help El Salvador compete with its Asian competitors for the U.S. market.

¶6. Exports of non-maquila textile and apparel (i.e., produced from mainly domestic components) also increased by 14%, from \$12.9 million to \$14.6 million. Within non-maquila apparel, exports of bed linens and towels grew by 31% to \$11.4 million, while exports of boudoir and kitchen clothing increased by 54% to \$11 million. Exports of synthetic fibers more than tripled, growing from \$1.2 million to \$4.2 million.

Non Maquila Exports Expansion

¶7. Non-maquila exports increased by an impressive 64% to \$434.8 million. As a share of total exports to the U.S., non-maquila exports grew from 15% to 21% during the first two years of CAFTA-DR. Ethyl alcohol (ethanol) exports accounted for 51% of the increase, growing 250% in two years to \$120.3 million. Excluding ethanol, non-maquila exports to the U.S. increased by 36% after two years of CAFTA-DR (from \$231.2 million to \$314.4 million).

Export Diversification

¶8. The increase in non-maquila exports has also included a diversification and expansion of non-traditional exports. For example, exports of precious metals grew by 356% to \$20 million and exports of electrical machinery more than doubled from \$3.9 million to \$8.1 million. New export products to the U.S. include radiators and airplane parts, prefabricated construction materials, frozen mulberry, and sweet chili.

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¶9. One of the most significant growth areas under CAFTA-DR has been "nostalgic" products targeting the Salvadoran community in the United States. During the first two years of CAFTA-DR, dairy exports (primarily Salvadoran cheeses) increased by 242% to \$896,000. Exports of packaged and prepared fruits and vegetables doubled, from \$2 million to \$4 million. Salvadoran nostalgic juices and cookies increased by 73% and 58% respectively. Other nostalgic products being exported to the U.S. are corn tamales, small shrimp (known as "chacalin"), the beverages horchata and cebada, dry fish, sweet bread, and frozen jocote and myrtle. An additional benefit is that the main exporters of "nostalgic" products are micro and small businesses, accounting for 70% of the total.

Traditional Sector also Benefits

¶10. The traditional exports of coffee, sugar, and shrimp have also enjoyed post-CAFTA success. Sugar exporters have taken full advantage of the agreement by increasing their preferential exports to the U.S. market by 15% to \$53 million. CAFTA-DR almost doubled the sugar quota from day one of the agreement. Similarly, frozen prawns exports increased by 73% to \$12 million.

U.S. Gains

¶11. The Central Bank reported that U.S. exports to El Salvador grew by 52% during the first two years of CAFTA-DR, from \$2.4 billion to \$3.6 billion. Export of maquila inputs decreased slightly, down by 2.5% to \$815.8 million. However, other exports to El Salvador grew by 80.7%, from \$1.6 billion to \$2.8 billion. Fuel (oil) and related exports accounted for 32.1% of the total nominal increase in U.S. exports to El Salvador.

¶12. During the first two years of CAFTA-DR, U.S. exports in about 41 different Central American Tariff System (SAC) categories have shown growth rates of above 50%. Those include a wide variety of products including; tools and knives, film, plastics, airplanes, boats, food, chemical products, synthetic fabrics, shoes, detergents, and wood products.

Comment

¶13. The continued growth of exports is one of the bright spots in a Salvadoran economy facing spiraling energy and food prices. Likewise, increased diversification is slowly helping El Salvador move away from its dependence on textile exports, opening new markets and creating new jobs. Based on data so far this year, the economic slowdown in the United States has not had a major effect on Salvadoran exports. However, some economic analysts such as Dr. Alvaro Trigueros, Macroeconomic specialist at the think tank Salvadoran Foundation for Economic and Social Development (FUSADES) and Dr. Roberto Rubio, the Director of the leftist National Foundation for Development (FUNDE), forecast that the effects of a U.S. slowdown may not be visible in El Salvador until later in 2008 or early 2009.

Glazer